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SUBJECT: GARMENT SECTOR WORRIES TARNISH GOVERNMENT-PRIVATE SECTOR LOVE FEST

¶11. SUMMARY. Business leaders and government officials touted recent accomplishments in promoting economic development during the Private Sector Forum, held June 21. Despite predictions of 2.5% economic growth in 2005, Cambodia's GDP actually grew by 13.4%, thanks to a bumper rice crop and stronger than expected growth in the garment sector, tourism, and construction. Participants detailed plans to renovate and reopen the Sihanoukville airport, described the expanded banking system, and enumerated other areas of progress. Garment manufacturers' concerns about increasing numbers of labor disputes and the lack of progress on negotiating nightshift wages were a strong but solitary negative note in an otherwise mutually congratulatory event.
END SUMMARY.

¶12. The biannual Private Sector Forum is a plenary cabinet meeting open to the business community and broadcast live on all Cambodian television stations. Private sector and government co-chairs of seven working groups gave presentations on progress made on issues affecting the business environment and seized the opportunity of the Prime Minister's undivided attention to ask him to make decisions on a variety of issues, from the establishment of new government bodies to the granting of a concession for an acacia plantation.

Recapping an Extraordinary Economic Year

¶13. Finance Minister Keat Chhon and Prime Minister Hun Sen opened the forum by describing Cambodia's remarkable economic performance in 2005. Early forecasts for 2005 economic growth hovered near 2.5%, due largely to fears that the end of textile quotas would have a severe impact on Cambodia's garment sector. In contrast to these dire predictions, the garment industry grew by 12.6% in 2005. Other sectors also did quite well, including 17.3% growth in agriculture (thanks to terrific weather and a record rice harvest, as well as an increase of 11.8% in the fish catch), 19.2% growth in construction, and 16% growth in tourism. Due to these impressive growth rates, GDP increased by 13.4% in 2005.

¶14. Keat Chhon noted that Cambodia's economic growth has been slowly accelerating since the formation of the post-UNTAC government. Annual growth averaged 6.3% from 1994 to 1998, 8.7% from 1999 to 2003, and 11.7% for 2004 and 2005. Prime

Minister Hun Sen noted that the government expects much more moderate economic growth in 2006--currently projected at 5%. The Prime Minister also requested donor and private sector support in two key economic development projects: training Cambodian workers and providing raw materials for special economic zones, and promoting agricultural exports.

Cambodian Tourist Facilities: If You Build It, They Will Come

15. Lay Prahos, Minister of Tourism, described ambitious plans to expand the lure of Sihanoukville's beaches by repairing the city's airport. Many tourists in Cambodia spend just a few days in the country touring the Angkor Wat ruins at Siem Reap as part of a longer trip to Thailand or other countries. The tourism sector believes that a flight from Siem Reap to Sihanoukville--which would likely take about an hour--would lure far more Angkor Wat tourists to the beach than the current 9 hour drive. The Minister expects that the Sihanoukville airport renovation project, whose contract was recently withdrawn from Ariston Company and given to Societe Concessionnaire des Airports, will be completed by January 2007. Within ten years, he hopes that the runway will be extended to 4,000 meters so that large planes can land, eliminating the need for Cambodia-bound travelers to transit via neighboring countries. The Tourism Minister also mentioned his ambition for a 4,000 meter-long runway in Phnom Penh and small airports in Ratankiri and Stung Treng.

16. The Prime Minister exhorted provincial governors to promote tourism in their provinces, noting that Cambodia's tourism potential is not limited to Phnom Penh, Sihanoukville, and Siem Reap. He noted that domestic tourism is an important first step--if Cambodians travel to ruins and

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other tourist attractions safely, then foreign tourists will follow. He also called for Cambodia to replace its reputation as a sex tourism destination and instead to become known as an eco- and cultural tourism destination only.

Banking Services Expanding

17. Charles Vann, private sector co-chair of the finance and banking working group, noted that the banking system in Cambodia had both improved and expanded in recent years. The National Bank of Cambodia's relicensing process increased confidence in the banking system, foreign deposits rose, and the loan to deposit ratio increased. Moreover, banks have expanded their reach, both by opening more branches outside of major cities and by the introduction of ATMs. Meanwhile, the interest rate for microfinance lending has dropped from 50% per year five years ago to 25% per year today. Chea Chanto, Governor of the National Bank of Cambodia, noted that Cambodian micro-finance institutions won three out of five prizes for financial transparency in a recent worldwide competition sponsored by a World Bank-affiliated group, the Consultative Group to Assist the Poor.

Garment Sector Worried about Labor Problems

18. Van Sou Ieng, Chairman of the Garment Manufacturers Association of Cambodia (GMAC), noted that in 2005, garment exports topped USD 2.2 billion and accounted for 15% of Cambodia's GDP while the garment industry employed 280,000 workers and indirectly supported 1.5 million people. He credited this growth mainly to the reimposition of US and EU safeguards against China, and reported that in the first five months of 2006 garment exports have risen 15% over the same period last year.

19. However, Van Sou Ieng also warned that unions are scaring off buyers due to excessive strikes, 95% of which are

illegal. He noted that buyers fear that labor unrest will damage their reputations for social responsibility and lead to late shipments. Many buyers are delaying confirming their garment sector orders until after July 3, when the Free Trade Union and Cambodian Independent Teachers' Association have threatened to hold a general strike. Van Sou Ieng complained that garment factories face intense scrutiny under the law and factory monitoring programs, while many unions lead illegal strikes without penalty. Moreover, some unions prevent willing employees from working during strikes through threats, blockaded factory gates, and burning tires near factory entrances. Finally, overly liberal labor laws allow small numbers of workers to form unions and then protect the three most senior leaders of each factory-level union, creating a proliferation of unions and essentially undismissable union leaders.

¶10. The GMAC chairman also lamented that no progress had been made on resolving the issue of nightshift wages, an issue which has been outstanding for more than two years. The Labor Law currently states that any employee working between 10 p.m. and 5 a.m. must be paid 200% the normal wage.

Commerce Minister Cham Prasidh asserted that this was meant to apply to overtime work during those hours, but due to vague wording also applied to nightshift workers. Nightshift wages in other southeast Asian countries range from 110% to 130% of normal wages, and Van Sou Ieng and Cham Prasidh appealed to the Prime Minister to set nightshift wages at 130%. They claimed that this move would encourage factories to start a third shift, thereby creating 150,000 jobs.
(Comment: This claim, based on every existing factory expanding from two to three fully-staffed shifts per day, seems exaggerated. End comment.)

¶11. The Prime Minister acknowledged the garment sector complaints, but said that he couldn't take unilateral action to set a nightshift wage or resolve labor complaints. He appealed to both sides to compromise, and appealed to workers to "pay attention to your cooking pot," or economic interests. If garment factories close, workers won't get USD 45 (the current monthly minimum wage), they will get nothing, he noted. At the same time, he remarked that upholding labor

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standards was inherently important: "Labor standards are not about getting exports to the US, they are about upholding human rights." The Prime Minister also said that the same labor standards that apply to industry at large need to apply to Cambodia's special economic zones.

Hun Sen Takes Aim at His Favorite Targets

¶12. In addition to his comments about economic matters, Hun Sen also used the opportunity of a captive cabinet, diplomatic corps, business sector, and television audience to take aim at some of his favorite targets of late: the World Bank and United Nations Special Representative for Human Rights Yash Ghai. The Prime Minister described Yash Ghai as "ignorant" and decried his willingness to criticize Cambodia's human rights record while spending little time in country. Moreover, he said it made little sense for the international community to criticize Cambodia for its poor human rights record but then ask for Cambodia's assistance in persuading Burma to respect the human rights of its people.

¶13. Hun Sen accused the World Bank of demanding repayment of allegedly misappropriated World Bank loans without providing sufficient evidence. Even Saddam Hussein and Slobodan Milosevic had a chance to see evidence and defend themselves, he noted. He pledged that the government would protect witnesses who came forward, asked companies to pay their taxes on time so the government would have the money to repay the World Bank, and told the country to prepare for a future without foreign aid.

¶14. COMMENT: Given 2005's unexpectedly impressive economic growth, this year's Private Sector Forum was largely a chance for government and business leaders to publicly congratulate themselves for a job well-done. Garment manufacturers' worries about labor troubles and the business limitations of high nightshift wages were the sole serious concern in an otherwise upbeat meeting. Hun Sen was at his charismatic best, benevolently agreeing to common sense proposals while taking the high road and refusing to take unilateral action on labor disputes, all while using humor to attempt to defuse recent criticism from the World Bank and UN Special Representative for Human Rights Yash Ghai. END COMMENT.

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